

CITY OF CHEROKEE

**INDEPENDENT AUDITORS' REPORTS
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

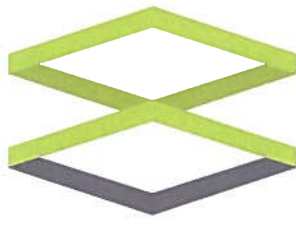
JUNE 30, 2015

TABLE OF CONTENTS

		<u>Page</u>
Officials		1
Independent Auditors' Report		2 - 4
Basic Financial Statements:		
	<u>Exhibit</u>	
Government-wide Financial Statement:		
Cash Basis Statement of Activities and Net Position	A	5 - 6
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements, and Changes in		
Cash Balances	B	7 - 8
Reconciliation of the Statement of Cash Receipts, Disbursements,		
and Changes in Cash Balances to the Cash Basis Statement of		
Activities and Net Position	C	9
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements, and Changes in		
Cash Balances	D	10
Fiduciary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements, and Change in		
Cash Balance	E	11
Notes to Financial Statements		12 - 25
Other Information (Unaudited):		
Budgetary Comparison Schedule of Receipts, Disbursements, and		
Changes in Balances - Budget and Actual (Cash Basis) - All		
Governmental Funds and Proprietary Funds		26 - 27
Notes to Other Information - Budgetary Reporting		28
Schedule of the City's Proportionate Share of the Net Pension Liability		29
Schedule of City Contributions		30 - 31
Notes to Other Information - Pension Liability		32 - 33
Supplementary Information:		
	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements, and Changes in		
Cash Balances - Nonmajor Governmental Funds	1	34 - 35
Schedule of Cash Receipts, Disbursements, and Changes in		
Cash Balances - Nonmajor Proprietary Funds	2	36
Schedule of Indebtedness	3	37 - 38
Note Maturities	4	39 - 40
Schedule of Receipts by Source and Disbursements by Function -		
All Governmental Funds	5	41 - 42
Schedule of Expenditures of Federal Awards	6	43
Independent Auditors' Report on Internal Control over Financial		
Reporting and on Compliance and Other Matters Based on an Audit		
of Financial Statements Performed in Accordance with <i>Government</i>		
<i>Auditing Standards</i>		44 - 45
Independent Auditors' Report on Compliance for Each Major Federal		
Program and on Internal Control over Compliance Required by		
OMB Circular A-133		46 - 47
Schedule of Findings and Questioned Costs		48 - 52

CITY OF CHEROKEE
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Mark Murphy	Mayor	January 2018
Wayne Pingel	Council Member, Mayor Pro-Tem	January 2016
Chad Brown	Council Member	January 2016
Jim Peck	Council Member	January 2016
Emily Johnson	Council Member	January 2018
Will Miller	Council Member	January 2018
Don Eikmeier	City Administrator	Indefinite
Debra Taylor	City Clerk/Treasurer	Indefinite
M.W. Miller, Jr.	Attorney	Indefinite



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Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
of the City of Cherokee, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the primary government of the City of Cherokee, Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

The financial statements referred to above do not include financial data for the City's legally separate component units. Accounting principles for the basis of accounting described in Note 1 require the financial data for the component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles for the basis of accounting described in Note 1, the cash basis net position, revenues, and expenses of the aggregate discretely presented component units would have been reported as \$240,828, \$20,806, and \$4,168, respectively.

Adverse Opinion on Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2015, or the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the primary government of the City of Cherokee as of June 30, 2015, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of a Matter

As disclosed in Note 4 to the financial statements, the City adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the primary government of the City of Cherokee. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements of the City's primary government for the nine years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 26 through 33, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2015 on our consideration of the City of Cherokee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Cherokee's internal control over financial reporting and compliance.

Wintner, Stave & Co., LLA

December 16, 2015
Spencer, Iowa

BASIC FINANCIAL STATEMENTS

CITY OF CHEROKEE
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

		Program Receipts		
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
	Disbursements			
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$1,040,788	\$ 56,849	\$ 20,000	
Public works	1,634,397		959,628	
Culture and recreation	1,041,200	148,683	21,227	
General government	266,530		4,766	
Debt service	1,605,076		5,908	\$ 44,123
Capital projects	709,094			17,801
Total governmental activities	<u>6,297,085</u>	<u>205,532</u>	<u>1,011,529</u>	<u>61,924</u>
Business-type activities:				
Water	593,390	739,467		
Sewer	927,549	1,281,257		
Landfill	356,344	378,472		
Solid waste	306,961	308,114		
Storm water	102,671	81,287		
Total business-type activities	<u>2,286,915</u>	<u>2,788,597</u>		
TOTAL	<u>\$8,584,000</u>	<u>\$2,994,129</u>	<u>\$1,011,529</u>	<u>\$ 61,924</u>
General Receipts and Transfers:				
Property and other City tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Hotel/motel tax				
Grants and contributions not restricted to specific purposes				
Unrestricted investment interest				
Bond and loan proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position - beginning of year				
Cash basis net position - end of year				
Cash basis net position:				
Restricted:				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Debt service				
Streets				
Employee benefits				
Other purposes				
Unrestricted				
Total cash basis net position				

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business-Type Activities	Total
\$ (963,939)		\$ (963,939)
(674,769)		(674,769)
(871,290)		(871,290)
(261,764)		(261,764)
(1,555,045)		(1,555,045)
(691,293)		(691,293)
<u>(5,018,100)</u>		<u>(5,018,100)</u>
	\$ 146,077	146,077
	353,708	353,708
	22,128	22,128
	1,153	1,153
	<u>(21,384)</u>	<u>(21,384)</u>
	<u>501,682</u>	<u>501,682</u>
<u>(5,018,100)</u>	<u>501,682</u>	<u>(4,516,418)</u>
1,607,534		1,607,534
2,323		2,323
583,932		583,932
567,621		567,621
92,817		92,817
81,220	1,558	82,778
14,665	4,065	18,730
658,318		658,318
158,947	37,789	196,736
<u>259,724</u>	<u>(259,724)</u>	
<u>4,027,101</u>	<u>(216,312)</u>	<u>3,810,789</u>
(990,999)	285,370	(705,629)
<u>1,876,449</u>	<u>1,200,762</u>	<u>3,077,211</u>
<u>\$ 885,450</u>	<u>\$1,486,132</u>	<u>\$2,371,582</u>
\$ 138,220		\$ 138,220
44,386	\$ 37,805	82,191
658,691		658,691
130,675		130,675
189,054		189,054
<u>(275,576)</u>	<u>1,448,327</u>	<u>1,172,751</u>
<u>\$ 885,450</u>	<u>\$1,486,132</u>	<u>\$2,371,582</u>

CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

		Special Revenue		
	General	Road Use	Employee Benefits	Local Option Sales Tax
RECEIPTS:				
Property tax	\$1,134,145		\$ 473,389	
Tax increment financing				
Other city taxes	92,817			\$ 567,621
Licenses and permits	28,365			
Use of money and property	11,682		381	1,243
Intergovernmental	97,634	\$546,220	4,766	413,408
Charges for service	180,753			
Special assessments				
Miscellaneous	326,001	28,760	35,760	7,482
TOTAL RECEIPTS	<u>1,871,397</u>	<u>574,980</u>	<u>514,296</u>	<u>989,754</u>
DISBURSEMENTS:				
Operating:				
Public safety	714,343		290,335	
Public works		488,146	83,519	990,064
Culture and recreation	854,572		113,356	
General government	452,616		77,530	
Debt service				
Capital projects				
TOTAL DISBURSEMENTS	<u>2,021,531</u>	<u>488,146</u>	<u>564,740</u>	<u>990,064</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(150,134)</u>	<u>86,834</u>	<u>(50,444)</u>	<u>(310)</u>
OTHER FINANCING SOURCES (USES):				
Bond and loan proceeds	4,618			
Operating transfers in	164,116	38,103	20,457	
Operating transfers out	(4,207)	(49,685)		(350,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>164,527</u>	<u>(11,582)</u>	<u>20,457</u>	<u>(350,000)</u>
CHANGE IN CASH BALANCES	14,393	75,252	(29,987)	(350,310)
CASH BALANCES - BEGINNING OF YEAR	<u>245,202</u>	<u>184,688</u>	<u>160,662</u>	<u>749,061</u>
CASH BALANCES (DEFICIT) - END OF YEAR	<u>\$ 259,595</u>	<u>\$259,940</u>	<u>\$130,675</u>	<u>\$ 398,751</u>
CASH BASIS FUND BALANCES:				
Nonspendable - cemetery perpetual care				
Restricted for:				
Debt service				
Streets		\$259,940		\$ 398,751
Employee benefits			\$130,675	
Other purposes				
Unassigned	<u>\$ 259,595</u>			
TOTAL CASH BASIS FUND BALANCE	<u>\$ 259,595</u>	<u>\$259,940</u>	<u>\$130,675</u>	<u>\$ 398,751</u>

Exhibit B

<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
	\$ 583,932		\$2,191,466
		\$ 2,323	2,323
			660,438
			28,365
\$ 69	654	636	14,665
17,801	5,908	21,227	1,106,964
	44,123		180,753
			44,123
<u>33,935</u>	<u>6,000</u>	<u>43,185</u>	<u>481,123</u>
<u>51,805</u>	<u>640,617</u>	<u>67,371</u>	<u>4,710,220</u>
36,110			1,040,788
129,100			1,690,829
		73,272	1,041,200
			530,146
	1,605,076		1,605,076
<u>699,429</u>		<u>9,665</u>	<u>709,094</u>
<u>864,639</u>	<u>1,605,076</u>	<u>82,937</u>	<u>6,617,133</u>
<u>(812,834)</u>	<u>(964,459)</u>	<u>(15,566)</u>	<u>(1,906,913)</u>
58,700	595,000		658,318
39,207	401,733	26,409	690,025
	(26,409)		(430,301)
<u>97,907</u>	<u>970,324</u>	<u>26,409</u>	<u>918,042</u>
(714,927)	5,865	10,843	(988,871)
<u>80,872</u>	<u>38,521</u>	<u>316,431</u>	<u>1,775,437</u>
<u>\$(634,055)</u>	<u>\$ 44,386</u>	<u>\$ 327,274</u>	<u>\$ 786,566</u>
		\$ 138,220	\$ 138,220
	\$ 44,386		44,386
			658,691
			130,675
		189,054	189,054
<u>\$(634,055)</u>			<u>(374,460)</u>
<u>\$(634,055)</u>	<u>\$ 44,386</u>	<u>\$ 327,274</u>	<u>\$ 786,566</u>

CITY OF CHEROKEE
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 TO THE CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

TOTAL GOVERNMENTAL FUNDS CASH BALANCES (Page 8)	\$ 786,566
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Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:

The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The cash balance of the Internal Service Fund is included in governmental activities in the Cash Basis Statement of Activities and Net Position.	<u>98,884</u>
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CASH BASIS NET POSITION OF GOVERNMENTAL ACTIVITIES (Page 6)	\$ <u>885,450</u>
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CHANGE IN CASH BALANCES (Page 8)	\$ (988,871)
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Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:

The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The change in cash balance of the Internal Service Fund is reported with governmental activities in the Cash Basis Statement of Activities and Net Position.	<u>(2,128)</u>
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CHANGE IN CASH BASIS NET POSITION OF GOVERNMENTAL ACTIVITIES (Page 6)	\$ <u>(990,999)</u>
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CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

	Enterprise Funds				Internal Service Fund Building Replacement
	Water	Sewer	Nonmajor	Total	
OPERATING RECEIPTS:					
Charges for service	\$816,630	\$1,412,085	\$767,873	\$2,996,588	
Miscellaneous	<u>30,157</u>	<u>6,203</u>	<u>1,429</u>	<u>37,789</u>	\$ 12,569
TOTAL OPERATING RECEIPTS	<u>846,787</u>	<u>1,418,288</u>	<u>769,302</u>	<u>3,034,377</u>	<u>12,569</u>
OPERATING DISBURSEMENTS:					
Business-type activities	<u>670,553</u>	<u>703,057</u>	<u>765,976</u>	<u>2,139,586</u>	<u>14,934</u>
TOTAL OPERATING DISBURSEMENTS	<u>670,553</u>	<u>703,057</u>	<u>765,976</u>	<u>2,139,586</u>	<u>14,934</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>176,234</u>	<u>715,231</u>	<u>3,326</u>	<u>894,791</u>	<u>(2,365)</u>
NONOPERATING RECEIPTS (DISBURSEMENTS):					
Intergovernmental			1,558	1,558	
Interest on investments	2,396	879	790	4,065	237
Debt service		<u>(355,320)</u>		<u>(355,320)</u>	
TOTAL NONOPERATING RECEIPTS (DISBURSEMENTS)	<u>2,396</u>	<u>(354,441)</u>	<u>2,348</u>	<u>(349,697)</u>	<u>237</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	178,630	360,790	5,674	545,094	(2,128)
TRANSFERS - NET	<u>(125,597)</u>	<u>(134,127)</u>		<u>(259,724)</u>	
CHANGE IN CASH BALANCES	53,033	226,663	5,674	285,370	(2,128)
CASH BALANCES - BEGINNING OF YEAR	<u>858,806</u>	<u>30,652</u>	<u>311,304</u>	<u>1,200,762</u>	<u>101,012</u>
CASH BALANCES - END OF YEAR	<u>\$911,839</u>	<u>\$257,315</u>	<u>\$316,978</u>	<u>\$1,486,132</u>	<u>\$ 98,884</u>
CASH BASIS FUND BALANCES:					
Restricted for debt service		\$ 37,805		\$ 37,805	
Unrestricted	<u>\$911,839</u>	<u>219,510</u>	<u>\$316,978</u>	<u>1,448,327</u>	<u>\$ 98,884</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$911,839</u>	<u>\$257,315</u>	<u>\$316,978</u>	<u>\$1,486,132</u>	<u>\$ 98,884</u>

CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGE IN CASH BALANCE
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2015

	Agency Fund Cherokee Aviation Authority
CASH BALANCE - BEGINNING OF YEAR	\$ -
RECEIPTS:	
Property tax	18,916
Miscellaneous	4,000
TOTAL RECEIPTS	<u>22,916</u>
DISBURSEMENTS:	
To other governments	<u>22,916</u>
CASH BALANCE - END OF YEAR	<u><u>\$ -</u></u>

NOTES TO FINANCIAL STATEMENTS

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Cherokee, Iowa is a political subdivision of the State of Iowa located in Cherokee County. It was first incorporated in 1856 and operates under the Home Rule provisions of the Constitution of Iowa and under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides various utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City is considered a primary government and has excluded the financial data of its component units, Cherokee Community Foundation and Cherokee Public Library Foundation. A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. A component unit is a legally separate entity for which the City is financially accountable. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. Since these financial statements do not include the City's component units, they do not purport to be prepared in conformity with accounting principles generally accepted in the United States of America as they relate to the exclusion of the component units.

Cherokee Community Foundation and Cherokee Public Library Foundation are considered component units of the City of Cherokee since these entities provide fundraising activities to benefit programs and projects of the City. Financial statements of these entities are not separately prepared.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Cherokee County Joint E911 Service Board, Cherokee County Assessor's Conference Board, Cherokee County Solid Waste Commission, and Cherokee Aviation Authority. Financial transactions of these organizations are included in the City's financial statements only to the extent of the City's fiduciary relationship with the organization and, if applicable, are reported as an Agency Fund of the City.

B. Basis of Presentation

Government-Wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the primary government of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in three categories:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on cash balances imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are separately aggregated and reported as nonmajor governmental and proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the local option sales tax allocation from the State of Iowa to be used for road construction.

The Employee Benefits Fund is used to account for the benefits provided employees which are financed by property taxes.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general obligation debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for financing the replacement of damaged property not covered by insurance.

C. Measurement Focus and Basis of Accounting

The City of Cherokee maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the debt service and capital project functions.

F. Management's Review

Management has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

2. CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City did not have investments subject to risk categorization at June 30, 2015.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

3. NOTES PAYABLE

Annual debt service requirements to maturity for general obligation and revenue notes are as follows:

Year Ending June 30,	<u>General Obligation Notes</u>		<u>Revenue Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 610,000	\$102,141	\$ 309,000	\$ 43,219	\$ 919,000	\$ 145,360
2017	520,000	89,667	319,000	37,649	839,000	127,316
2018	475,000	80,329	331,000	31,886	806,000	112,215
2019	415,000	69,980	343,000	25,922	758,000	95,902
2020	385,000	60,005	355,000	19,728	740,000	79,733
2021 - 2025	1,360,000	135,438	824,000	29,492	2,184,000	164,930
2026 - 2030	245,000	16,584	43,000	5,460	288,000	22,044
2031 - 2035			10,000	300	10,000	300
Total	<u>\$4,010,000</u>	<u>\$554,144</u>	<u>\$2,534,000</u>	<u>\$193,656</u>	<u>\$6,544,000</u>	<u>\$747,800</u>

The Code of Iowa requires that principal and interest on general obligation notes be paid from the Debt Service Fund.

Capital Lease Purchase Agreement

The City has entered into a capital lease purchase agreement to lease equipment with historical costs totaling \$154,617. The following is a schedule of the future minimum lease payments, including interest at a rate of 3.25% per annum.

<u>Year Ending June 30</u>	<u>Total</u>
2016	\$ 79,740
2017	<u>32,690</u>
TOTAL	<u>\$112,430</u>

Revenue Notes

The City has pledged future sewer customer receipts net of specified operating disbursements to repay \$5,704,000 in sewer revenue notes issued in 1999, 2002, and 2011. Proceeds from the notes provided financing for sewer system improvements. The notes are payable solely from sewer customer net receipts and are payable through 2031. Annual principal and interest payments on the bonds are expected to require less than 80% percent of net receipts. The total principal and interest remaining to be paid on the notes is \$2,727,656. For the current year, principal and interest paid and total customer net receipts were \$355,320 and \$715,231, respectively.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

3. NOTES PAYABLE - Continued

The resolutions providing for the issuance of sewer revenue notes include the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders retain a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to separate revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c. User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

At June 30, 2015, the balance of the bond and interest sinking fund is \$37,805.

4. PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, IA 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

4. PENSION PLAN - Continued

Pension Benefits - Continued.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent. Protective occupation members contributed 6.76 percent of pay and the City contributed 10.14 percent for a total rate of 16.90 percent.

The City's contributions to IPERS for the year ended June 30, 2015 were \$151,909.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

4. PENSION PLAN - Continued

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions- At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$575,547. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was .014501 percent which was an increase of .002636 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City collective pension expense, collective deferred outflows, and collective deferred inflows totaled \$65,518, \$47,147, and \$512,751, respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

4. PENSION PLAN - Continued

Actuarial Assumptions - Continued

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31%
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	<u>1</u>	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease <u>(6.5%)</u>	Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
City's proportionate share of the net pension liability	\$1,405,924	\$ 575,547	\$ (125,053)

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

5. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description - The City operates a single-employer retiree health plan which provides medical/prescription drug benefits for employee and retirees. There are no retired members in the plan. Eligible retirees receive health care coverage through the same plans that are available for active employees. Retired participants must be age 55 or older at retirement. Benefits terminate upon attaining Medicare eligibility.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Contributions are required for retiree coverage. The retiree contributions are based on and equal to the historical full cost of active members. Retiree expenses are then offset by retiree contributions.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. Depending on plan level selected, the most recent active member monthly premiums for the City and plan members range from \$394 for single coverage to \$1,208 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2015, the City made no contributions to the retiree benefit plan.

6. COMPENSATED ABSENCES

City employees meeting established criteria accumulate a limited amount of earned but unused vacation, compensatory time, and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time, and sick leave termination payments payable to employees at June 30, 2015, primarily relating to the General Fund, is \$210,974.

The liability for compensated absences has been computed based on rates of pay as of June 30, 2015.

7. LANDFILL CONTRACT

The solid waste disposal contract, which continues indefinitely, requires total annual payments of \$356,344 by the City. This amount is based on a percentage of total population within the county.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

8. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Road Use	\$ 14,685
	Proprietary: Water	77,163
	Proprietary: Sewer	<u>72,268</u>
Total Transfers to General		<u>164,116</u>
Road Use	Proprietary: Sewer	<u>38,103</u>
Employee Benefits	Proprietary: Sewer	<u>20,457</u>
Capital Projects	General	4,207
	Special Revenue: Road Use	<u>35,000</u>
Total Transfers to Capital Projects		<u>39,207</u>
Debt Service	Special Revenue: Local Option Sales Tax	350,000
	Proprietary: Water	48,434
	Proprietary: Sewer	<u>3,299</u>
Total Transfers to Debt Service		<u>401,733</u>
Tax Increment Financing	Debt Service	<u>26,409</u>
Total		<u>\$690,025</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

9. RISK MANAGEMENT

The City of Cherokee is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 727 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300 percent of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any yearend operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City of Cherokee's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Cherokee's annual contributions to the Pool for the year ended June 30, 2015 were \$129,034.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims, or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

9. RISK MANAGEMENT - Continued

The City does not disclose a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2015, no liability has been disclosed in the City's financial statements. As of June 30, 2015, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City of Cherokee also carries commercial insurance purchased from other insurers for coverage associated with commercial property, workers' compensation, and lift station in flood area. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. DEFICIT FUND BALANCES

The following funds had a deficit balance at June 30, 2015:

<u>Fund</u>	<u>Deficit Balance June 30, 2015</u>	<u>Cause of Deficit</u>	<u>Plans to Eliminate Deficit</u>
Capital Projects Fund	\$634,055	Increase in expenditures	Increase revenues
Proprietary: Solid waste	\$ 6,971	Increase in expenditures	Reduce spending

11. LITIGATION

The City is party to routine legal proceedings and litigation arising in the normal course of business. In the opinion of management, the outcome of such actions will have no material impact on the City's financial condition.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

12. COMMITMENTS

At June 30, 2015, the City had construction contracts for infrastructure projects totaling approximately \$2,863,179 of which approximately \$788,829 remained outstanding.

The City has been awarded a \$347,900 Community Development Block Grant (CDBG) for a housing rehabilitation program. The grant is for the rehabilitation of ten low-to-moderate income owner-occupied housing units within a target area in Cherokee city limits. The City receives advances from the grant as reimbursements of amounts expended and is required to provide \$30,000 in matching funds. Grant funding will be expended as 5-year forgivable loans, with mortgage payback to be prorated if the home is vacated before the 5-year period is complete. Through June 30, 2015, \$197,407 had been expended to seven homeowners and for administrative costs.

13. SUBSEQUENT EVENTS

Between September and November 2015, the City entered into construction contracts and equipment purchases totaling \$864,078 for various street projects and equipment.

OTHER INFORMATION

CITY OF CHEROKEE
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
OTHER INFORMATION (UNAUDITED)
YEAR ENDED JUNE 30, 2015

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to <u>be Budgeted</u>
RECEIPTS:			
Property tax	\$2,191,466		
Tax increment financing collections	2,323		
Other city taxes	660,438		
Licenses and permits	28,365		
Use of money and property	14,665	\$ 4,302	\$ 237
Intergovernmental	1,106,964	1,558	
Charges for service	180,753	2,996,588	
Special assessments	44,123		
Miscellaneous	<u>481,123</u>	<u>50,358</u>	<u>12,569</u>
TOTAL RECEIPTS	<u>4,710,220</u>	<u>3,052,806</u>	<u>12,806</u>
DISBURSEMENTS:			
Public safety	1,040,788		
Public works	1,690,829		
Culture and recreation	1,041,200		
Community and economic development			
General government	530,146		
Debt service	1,605,076		
Capital projects	709,094		
Business-type activities		<u>2,509,840</u>	<u>14,934</u>
TOTAL DISBURSEMENTS	<u>6,617,133</u>	<u>2,509,840</u>	<u>14,934</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(1,906,913)	542,966	(2,128)
OTHER FINANCING SOURCES (USES) - NET ...	<u>918,042</u>	<u>(259,724)</u>	
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	(988,871)	283,242	(2,128)
CASH BALANCES - BEGINNING OF YEAR	<u>1,775,437</u>	<u>1,301,774</u>	<u>101,012</u>
CASH BALANCES - END OF YEAR	<u>\$ 786,566</u>	<u>\$1,585,016</u>	<u>\$ 98,884</u>

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$2,191,466	\$2,149,687	\$ 2,149,687	\$ 41,779
2,323	2,349	2,349	(26)
660,438	926,421	926,421	(265,983)
28,365	16,835	16,835	11,530
18,730	25,026	25,026	(6,296)
1,108,522	1,103,459	1,890,924	(782,402)
3,177,341	3,295,873	3,295,873	(118,532)
44,123	80,000	80,000	(35,877)
<u>518,912</u>	<u>542,833</u>	<u>542,833</u>	<u>(23,921)</u>
<u>7,750,220</u>	<u>8,142,483</u>	<u>8,929,948</u>	<u>(1,179,728)</u>
1,040,788	1,033,414	1,052,274	11,486
1,690,829	1,110,687	1,722,976	32,147
1,041,200	998,195	1,096,493	55,293
	3,000	33,000	33,000
530,146	569,568	569,568	39,422
1,605,076	1,018,042	1,600,382	(4,694)
709,094	141,530	177,640	(531,454)
<u>2,494,906</u>	<u>3,360,706</u>	<u>4,013,941</u>	<u>1,519,035</u>
<u>9,112,039</u>	<u>8,235,142</u>	<u>10,266,274</u>	<u>1,154,235</u>
(1,361,819)	(92,659)	(1,336,326)	(25,493)
<u>658,318</u>	<u>359,411</u>	<u>942,149</u>	<u>(283,831)</u>
(703,501)	<u>\$ 266,752</u>	<u>\$ (394,177)</u>	<u>\$ (309,324)</u>
<u>2,976,199</u>			
<u>\$2,272,698</u>			

CITY OF CHEROKEE
NOTES TO OTHER INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2015

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except internal service and agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects fund, and enterprise funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$2,031,132. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements exceeded the amount budgeted in the capital projects and debt service functions.

CITY OF CHEROKEE
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST FISCAL YEAR *
(IN THOUSANDS)

OTHER INFORMATION (UNAUDITED)

	<u>2015</u>
City's proportion of the net pension liability014501%
City's proportionate share of the net pension liability	\$ 975
City's covered-employee payroll	\$ 1,570
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	62.10%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

CITY OF CHEROKEE
SCHEDULE OF CITY CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS
(IN THOUSANDS)

OTHER INFORMATION (UNAUDITED)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 151,909	\$ 150,551	\$ 138,379	\$ 125,650
Contributions in relation to the statutorily required contribution	<u>151,909</u>	<u>150,551</u>	<u>138,379</u>	<u>125,650</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
City's covered-employee payroll	\$1,635,390	\$1,570,441	\$1,513,145	\$1,454,132
Contributions as a percentage of covered-employee payroll	9.29%	9.59%	9.15%	8.64%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 109,552	\$ 99,308	\$ 90,175	\$ 84,059	\$ 79,967	\$ 80,928
<u>109,552</u>	<u>99,308</u>	<u>90,175</u>	<u>84,059</u>	<u>79,967</u>	<u>80,928</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$1,392,766	\$1,339,978	\$1,280,136	\$1,228,020	Not available	Not available
7.87%	7.41%	7.04%	6.85%	Not available	Not available

CITY OF CHEROKEE
NOTES TO OTHER INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2015

Changes of Benefit Terms

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of Assumptions

The 2014 valuation implemented the following refinements as a result of quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 years period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

CITY OF CHEROKEE
NOTES TO OTHER INFORMATION - PENSION LIABILITY - Continued
YEAR ENDED JUNE 30, 2015

Changes of Assumptions - Continued

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

SUPPLEMENTARY INFORMATION

CITY OF CHEROKEE
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

	Special Revenue		
	Urban Renewal TIF	Revolving Loan	Library Memorial
RECEIPTS:			
Tax increment financing	\$ 2,323		
Use of money and property		\$ 198	\$ 23
Intergovernmental			5,084
Miscellaneous	<u>4,838</u>	<u>5,300</u>	<u>7,962</u>
TOTAL RECEIPTS	<u>7,161</u>	<u>5,498</u>	<u>13,069</u>
DISBURSEMENTS:			
Operating:			
Culture and recreation		30,000	12,810
Capital projects	<u>9,665</u>		
TOTAL DISBURSEMENTS	<u>9,665</u>	<u>30,000</u>	<u>12,810</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(2,504)</u>	<u>(24,502)</u>	<u>259</u>
OTHER FINANCING SOURCES:			
Operating transfers in	<u>26,409</u>		
TOTAL OTHER FINANCING SOURCES	<u>26,409</u>		
NET CHANGE IN CASH BALANCES	23,905	(24,502)	259
CASH BALANCES - BEGINNING OF YEAR	<u>39,395</u>	<u>103,664</u>	<u>7,695</u>
CASH BALANCES - END OF YEAR	<u>\$ 63,300</u>	<u>\$ 79,162</u>	<u>\$ 7,954</u>
CASH BASIS FUND BALANCES:			
Nonspendable - cemetery perpetual care			
Restricted for other purposes	<u>\$ 63,300</u>	<u>\$ 79,162</u>	<u>\$ 7,954</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 63,300</u>	<u>\$ 79,162</u>	<u>\$ 7,954</u>

Schedule 1

<u>Parks & Recreation Capital Improvements</u>	<u>Permanent Oak Hill Perpetual Care</u>	<u>Total</u>
		\$ 2,323
\$ 58	\$ 357	636
16,143		21,227
<u>23,825</u>	<u>1,260</u>	<u>43,185</u>
<u>40,026</u>	<u>1,617</u>	<u>67,371</u>
30,397	65	73,272
		<u>9,665</u>
<u>30,397</u>	<u>65</u>	<u>82,937</u>
<u>9,629</u>	<u>1,552</u>	<u>(15,566)</u>
		<u>26,409</u>
		<u>26,409</u>
9,629	1,552	10,843
<u>29,009</u>	<u>136,668</u>	<u>316,431</u>
<u>\$ 38,638</u>	<u>\$138,220</u>	<u>\$327,274</u>
\$ 38,638	\$138,220	\$138,220
		<u>189,054</u>
<u>\$ 38,638</u>	<u>\$138,220</u>	<u>\$327,274</u>

CITY OF CHEROKEE
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

	Enterprise Funds			
	<u>Landfill</u>	<u>Solid Waste</u>	<u>Storm Water</u>	<u>Total</u>
OPERATING RECEIPTS:				
Charges for service	\$378,472	\$308,114	\$ 81,287	\$767,873
Use of money and property	105		685	790
Miscellaneous		1,429		1,429
TOTAL OPERATING RECEIPTS	<u>378,577</u>	<u>309,543</u>	<u>81,972</u>	<u>770,092</u>
OPERATING DISBURSEMENTS:				
Business type activities	<u>356,344</u>	<u>306,961</u>	<u>102,671</u>	<u>765,976</u>
TOTAL OPERATING DISBURSEMENT	<u>356,344</u>	<u>306,961</u>	<u>102,671</u>	<u>765,976</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	22,233	2,582	(20,699)	4,116
NONOPERATING RECEIPTS:				
Intergovernmental		1,558		1,558
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	22,233	4,140	(20,699)	5,674
CASH BALANCES (DEFICIT) - BEGINNING OF YEAR	<u>37,045</u>	<u>(11,111)</u>	<u>285,370</u>	<u>311,304</u>
CASH BALANCES (DEFICIT) - END OF YEAR	<u>\$ 59,278</u>	<u>\$ (6,971)</u>	<u>\$264,671</u>	<u>\$316,978</u>
CASH BASIS FUND BALANCES:				
Unrestricted	<u>\$ 59,278</u>	<u>\$ (6,971)</u>	<u>\$264,671</u>	<u>\$316,978</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 59,278</u>	<u>\$ (6,971)</u>	<u>\$264,671</u>	<u>\$316,978</u>

CITY OF CHEROKEE
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2015

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount of Original Issue</u>	<u>Balance Beginning of Year</u>
General Obligation Notes:				
Essential corporate purpose (aquatic center)	8-15-06	4.10 - 4.60%	\$ 400,000	\$ 140,000
Essential corporate purpose (fire rescue truck)	7-01-08	2.70 - 4.00%	595,000	260,000
Essential corporate purpose	6-01-09	1.35 - 4.125%	945,000	175,000
2010 refunding loan	3-10-10	.85 - 2.65%	2,830,000	550,000
2011 capital loan	4-01-11	1.50 - 3.55%	2,500,000	2,275,000
2011 urban renewal	12-08-11	3.50%	245,000	210,000
2012 capital loan	11-15-12	.85 - 1.95%	350,000	320,000
2013 capital loan	6-27-13	1.10 - 3.35%	950,000	950,000
2014 refunding	9-12-14	1.00 - 2.00%	595,000	<u> </u>
TOTAL				<u>\$4,880,000</u>
Revenue Notes:				
Sewer	9-30-99	1.75%	\$2,170,000	\$ 970,000
Sewer	6-19-02	1.75%	3,390,000	1,735,000
Sewer	5-04-11	3.00%	144,000	<u>128,000</u>
TOTAL				<u>\$2,833,000</u>

Schedule 3

<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
	\$ 140,000		\$ 1,775	
	260,000		2,831	
	175,000		1,834	
	450,000	\$ 100,000	12,775	
	230,000	2,045,000	63,448	
	25,000	185,000	7,350	
	35,000	285,000	4,735	
		950,000	22,780	
<u>\$595,000</u>	<u>150,000</u>	<u>445,000</u>	<u>6,993</u>	<u> </u>
<u>\$595,000</u>	<u>\$1,465,000</u>	<u>\$4,010,000</u>	<u>\$124,521</u>	<u>\$ </u>
	\$ 122,000	\$ 848,000	\$ 16,975	
	171,000	1,564,000	30,363	
<u> </u>	<u>6,000</u>	<u>122,000</u>	<u>3,840</u>	<u> </u>
<u>\$ </u>	<u>\$ 299,000</u>	<u>\$2,534,000</u>	<u>\$ 51,178</u>	<u>\$ </u>

CITY OF CHEROKEE
NOTE MATURITIES
JUNE 30, 2015

General Obligation Notes

<u>Miscellaneous Projects</u>						
Year Ending June 30,	<u>Issued 3-10-2010</u>		<u>Issued 4-01-2011</u>		<u>Issued 12-08-2011</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2016	2.65%	\$100,000	2.10%	\$ 235,000	3.50%	\$ 25,000
2017			2.40%	240,000	3.50%	25,000
2018			2.60%	245,000	3.50%	25,000
2019			2.80%	250,000	3.50%	25,000
2020			3.00%	255,000	3.50%	25,000
2021			3.15%	265,000	3.50%	30,000
2022			3.30%	275,000	3.50%	30,000
2023			3.55%	280,000		
2024						
2025						
2026						
2027						
2028						
TOTAL		<u>\$100,000</u>		<u>\$2,045,000</u>		<u>\$185,000</u>

Revenue Notes

Year Ending June 30,	<u>Sewer Issued 9-30-99</u>		<u>Sewer Issued 6-19-02</u>		<u>Sewer Issued 5-24-11</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2016	1.75%	\$127,000	1.75%	\$ 176,000	3.00%	\$ 6,000
2017	1.75%	132,000	1.75%	181,000	3.00%	6,000
2018	1.75%	138,000	1.75%	187,000	3.00%	6,000
2019	1.75%	144,000	1.75%	192,000	3.00%	7,000
2020	1.75%	150,000	1.75%	198,000	3.00%	7,000
2021	1.75%	157,000	1.75%	204,000	3.00%	7,000
2022			1.75%	210,000	3.00%	7,000
2023			1.75%	216,000	3.00%	7,000
2024					3.00%	8,000
2025					3.00%	8,000
2026					3.00%	8,000
2027					3.00%	8,000
2028					3.00%	9,000
2029					3.00%	9,000
2030					3.00%	9,000
2031					3.00%	10,000
TOTAL		<u>\$848,000</u>		<u>\$1,564,000</u>		<u>\$122,000</u>

Miscellaneous Projects						
Issued 11-15-2012		Issued 6-27-2013		Issued 9-12-2014		
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
.85%	\$ 35,000	1.10%	\$ 65,000		\$150,000	\$ 610,000
1.25%	35,000	1.10%	65,000		155,000	520,000
1.25%	35,000	1.60%	65,000		105,000	475,000
1.25%	35,000	1.60%	70,000		35,000	415,000
1.95%	35,000	2.10%	70,000			385,000
1.95%	35,000	2.10%	70,000			400,000
1.95%	35,000	2.50%	70,000			410,000
1.95%	40,000	2.50%	75,000			395,000
		2.85%	75,000			75,000
		2.85%	80,000			80,000
		3.35%	80,000			80,000
		3.35%	80,000			80,000
		3.35%	85,000			85,000
TOTAL	<u>\$285,000</u>		<u>\$950,000</u>		<u>\$445,000</u>	<u>\$4,010,000</u>

Total
 \$ 309,000
 319,000
 331,000
 343,000
 355,000
 368,000
 217,000
 223,000
 8,000
 8,000
 8,000
 8,000
 9,000
 9,000
 9,000
10,000
\$2,534,000

CITY OF CHEROKEE
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST TEN YEARS

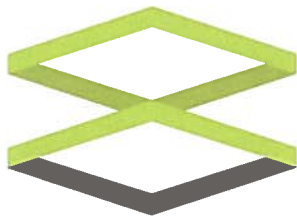
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
RECEIPTS:				
Property and other city tax	\$2,851,904	\$2,688,304	\$2,728,049	\$2,671,560
Tax increment financing	2,323	39,395	83,462	248,846
Licenses and permits	28,365	16,329	18,754	18,514
Use of money and property	14,665	18,720	21,548	27,010
Intergovernmental	1,106,964	665,171	903,856	927,271
Charges for service	180,753	187,778	174,725	178,401
Special assessments	44,123	72,082	86,370	171,151
Miscellaneous	<u>481,123</u>	<u>588,486</u>	<u>377,171</u>	<u>731,882</u>
 TOTAL RECEIPTS	 <u>\$4,710,220</u>	 <u>\$4,276,265</u>	 <u>\$4,393,935</u>	 <u>\$4,974,635</u>
DISBURSEMENTS:				
Public safety	\$1,040,788	\$1,085,543	\$ 995,812	\$1,022,695
Public works	1,690,829	1,619,371	1,295,151	2,784,091
Culture and recreation	1,041,200	1,258,630	1,046,121	1,153,249
Community and economic development			13,927	27,632
General government	530,146	480,940	380,367	373,893
Debt service	1,605,076	1,001,822	1,079,752	1,604,978
Capital projects	<u>709,094</u>	<u>10,928</u>	<u>73,091</u>	<u>207,874</u>
 TOTAL DISBURSEMENTS	 <u>\$6,617,133</u>	 <u>\$5,457,234</u>	 <u>\$4,884,221</u>	 <u>\$7,174,412</u>

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$2,649,433	\$2,582,070	\$2,261,960	\$2,206,233	\$2,135,270	\$2,115,269
187,847	280,549	218,619	202,182	205,308	170,779
16,584	15,669	26,537	28,364	25,777	27,469
37,982	46,864	97,953	132,896	163,893	193,391
538,638	523,803	765,607	567,671	887,099	487,336
160,338	175,524	140,477	171,005	101,431	59,620
17,224	17,242	18,272	36,770	25,830	52,077
<u>502,466</u>	<u>490,343</u>	<u>521,807</u>	<u>679,773</u>	<u>1,358,900</u>	<u>567,434</u>
<u>\$4,110,512</u>	<u>\$4,132,064</u>	<u>\$4,051,232</u>	<u>\$4,024,894</u>	<u>\$4,903,508</u>	<u>\$3,673,375</u>
\$1,256,542	\$ 853,192	\$1,345,016	\$ 870,531	\$ 922,236	\$ 935,557
658,880	826,921	665,083	761,497	738,554	486,313
790,994	775,285	757,638	1,345,196	680,192	909,802
9,349	4,920	1,641	12,361	635	1,777
341,621	332,516	345,061	230,641	303,901	295,914
1,518,384	1,526,802	2,113,371	1,283,427	983,395	1,192,475
<u>764,547</u>	<u>18,543</u>	<u>291,658</u>	<u>139,788</u>	<u>3,032,922</u>	<u>211,407</u>
<u>\$5,340,317</u>	<u>\$4,338,179</u>	<u>\$5,519,468</u>	<u>\$4,643,441</u>	<u>\$6,661,835</u>	<u>\$4,033,245</u>

CITY OF CHEROKEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency Pass-through Number</u>	<u>Program Expenditures</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	12-HSG-012	\$ 129,356
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction.....	20.205	BRM-1272(619)-8N-18	267,482
U.S. Department of Homeland Security:			
Iowa Department of Homeland Security and Emergency Management:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4084-DR-IA	45,328
Hazard Mitigation Grant	97.039	HMGP-DR-4126	<u>524,572</u>
TOTAL			<u>\$ 966,738</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the primary government of the City of Cherokee and is presented on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Members of the City Council
of the City of Cherokee, Iowa

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the primary government of the City of Cherokee, Iowa, as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the basic financial statements of the City's primary government, and have issued our report thereon dated December 16, 2015. Our report expressed unmodified opinions on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Cherokee's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a

deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as Item II-A-15 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cherokee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Cherokee's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

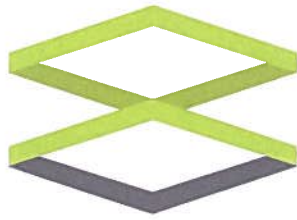
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Cherokee during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Wintner, Stave & Co., LLC

December 16, 2015
Spencer, Iowa



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

The Honorable Mayor and
Members of the City Council
of the City of Cherokee, Iowa

Report on Compliance for Each Major Federal Program

We have audited the compliance of the City of Cherokee with the types of compliance requirements described in U.S. Office of Management and budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2015. The City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations contracts and grant agreements applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Cherokee, Iowa complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-15 to be a material weakness.

The City's response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings and questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Wintner, Starnes Co., LPA

December 16, 2015
Spencer, Iowa

CITY OF CHEROKEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

Part I: Summary of the Independent Auditors' Results

- (a) An unmodified opinion was issued on the financial statements, which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 97.039 - Hazard Mitigation Grant.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Cherokee did not qualify as a low-risk auditee.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2015

Part II: Findings Related to the Financial Statements

Internal Control Deficiency:

II-A-15 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that custody of receipts, preparation of bank deposits, and posting of cash receipts to the cash receipts journal can be done by the same individual.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider our control procedures.

Conclusion - Response accepted.

Instances of Non-Compliance:

No matters were noted.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2015

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance:

No matters were reported.

Internal Control Deficiency:

CFDA Number 97.039: Hazard Mitigation Grant

Pass-through Agency Number: HMPG-DR-4126

Federal Award Year: 2015

U.S. Department of Homeland Security, pass through the Iowa Department of Homeland Security and Emergency Management

III-A-15 Segregation of Duties Over Federal Revenues - The City did not properly segregate custody, record-keeping, and reconciling functions for revenues and expenses, including those related to its federal program. See item II-A-15.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2015

Part IV: Other Findings Related to Statutory Reporting

IV-A-15 Certified Budget - Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the capital projects and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

IV-B-15 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-15 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-15 Business Transactions - No business transactions between the City and City officials or employees were noted.

IV-E-15 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-15 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-15 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-15 Revenue Notes - No instances of non-compliance with the revenue note resolutions were noted.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2015

Part IV: Other Findings Related to Statutory Reporting - Continued

- IV-I-15 Urban Renewal Annual Report - The urban renewal annual reports for FY2014 and FY2015 were approved and certified to the Iowa Department of Management on or before December 1, 2014 and 2015, respectively. However, the amount reported by the City as TIF debt outstanding was overstated on the Levy Authority Summary each year.

Recommendation - The City should ensure TIF debt outstanding amounts reported on the Levy Authority Summary agree with the City's records for the Special Revenue, Urban Renewal TIF Fund.

Response - These items will be corrected on future reports.

Conclusion - Response accepted.

- IV-J-15 Tax Increment Financing (TIF) - Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. We noted the City has certain TIF districts which hold cash balances after all TIF indebtedness has been repaid.

Recommendation - The City should consult TIF legal counsel to determine the disposition of the balances held in these TIF districts, including the amounts, if any, to be returned to the County Treasurer as required by Chapter 24.21 of the Code of Iowa.

Response - The City will consult legal counsel regarding these balances.

Conclusion - Response accepted.

- IV-K-15 Financial Condition - The Capital Project and Proprietary, Solid Waste funds had deficit balances at June 30, 2015.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return this account to a sound financial position.

Response - The deficits are expected to be eliminated through increased revenues and reduced spending.

Conclusion - Response accepted.